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REVIEW OF LABOR AND ECONOMIC CONDITIONS

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MINNESOTA DEPARTMENT OF ECONOMIC SECURITY

RESEARCH AND STATISTICAL SERVICES OFFICE

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Manuscripts of articles are welcomed and should be submitted to the Editor. Articles on labor market conditions and the economic welfare of Minnesota workers are preferred, but subjects which can be shown to be closely related to general economic conditions within the State will also be considered. Articles should be submitted complete with tables and graphs. Length generally should not exceed the equivalent of ten single-spaced typewritten pages, including graphs, references, and notes.

All signed articles appearing in this publication together with the Editorial Comment represent the views of the author or editor and not necessarily those of the Department. Questions or comments to the authors may be directed to the Research and Statistical Services Office of the Minnesota Department of Economic Security, 390 N. Robert Street, St. Paul, Minnesota, 55101 or (612) 296-6545.

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Editorial Comment

By R. Pinola

WHAT'S WRONG IN EDUCATION

The failures of the K-12 educational program in the United States have been amply documented and publicized in recent months. Scarcely a day passes that we haven't been fed with some new charges of failure and new recommendations for corrective action. Unfortunately, as with many social and economic problems, recommended courses of action are directed toward treating the symptoms rather than the causes. But even in the treatment of symptoms one finds recommendations that are logically inconsistent. For example, while decrying the failure of the sytem to teach students to read, write and compute, advocates of high-technology recommend more spending on high-level technical training as if, somehow, this will automatically teach Johnny to read. 1/

Having labored in the vineyards of higher education for 17 years and also observing the operation of our K-12 programs in many states, we have developed some personal ideas about the problem and its causes. First, our experience and observation indicates that the American public and the educational establishment lacks a definitive conceptualization of what the educational system should produce. To put it another way, insufficient consideration has been given to formulating an explicit set of measurable and testable objectives and standards that can be used to evaluate performance. Instead, the objectives put forth are vague or generalized statements about good citizenship and the development of skills which are assumed to be acquired by mere attendance in classes varying in content and level of instruction. Without an explicit set of objectives and standards for measuring their achievement, we fail to see how it is possible to determine whether the present curriculum and instructional systems are effective or not. As a result, it is difficult to do more than address symptoms, and hope for the best.

Our second observation is that the governance of our educational system is largely based on political considerations rather than knowledge of what the educational process should achieve. What this means is that we operate in an environment where management of the system is evaluated by using the criteria of "hear-no-evil, speak no evil", which boils down to keeping everyone happy. It also means that problems are apt to be resolved by throwing more money at them or, alternatively, promoting grade inflation, countenancing universal passing of students, and designing curriculums that often lack challenge. While the condition is more generally recognized as existent in the K-12 program, it is equally prevalent in much of higher education as well. Having taught senior undergraduate and graduate students in various universities, we can vouch for the fact that, in far too many cases, students are allowed to progress or advance in lock-step fashion without regard to competencies in subject matter, language usage, and problems analysis. Moreover, when a few attempt to establish and maintain standards, they are chastised and castigated beyond belief. In short, the game plan is to make no waves and keep everyone happy.

1/ A similar anachronism applies with respect to putting more emphasis and funds into foreign language instruction when the record indicates serious deficiencies in the usage of the native language. In the late 1950s, considerable sums of money were pumped into the then-heralded language laboratories that promised to remedy the deficiencies of foreign language instruction. Apparently no one bothered asking how you raise the level of proficiency in foreign language when students were disinclined to raise their proficiency in their native tongue.

Closely related to our first and second observations is the reward system that exists in most educational institutions. It is well known that the equal rewarding of incompetents and competents not only discourages the competent, but induces them to leave the system, yet nobody wants to force a change. The end result is a system in which standards mean little or nothing, grade inflation is rampant, making waves is discouraged, and the public treasury is used to finance bigger and better promotions. It is a system in which an equal opportunity to succeed is not matched by an equal opportunity to fail, and as long as this element is missing, we can expect a disproportionate number of our students to continue to be unable to read a newspaper, balance a checkbook, and do decimal fractions.

SOME IMPLICATIONS OF STRUCTURAL CHANGE IN OUR ECONOMY

It is well known that the industrial composition of economic activity and employment has changed dramatically in the United States over the past 40 years. A similar shift in the composition of economic activity has occurred in the composition of female employment as the services sector became an increasingly larger proportion of total employment and the women's share of industry employment rose substantially. 2/ This increase in job opportunitites has probably been the single largest contributing factor to the substantial increase in female labor force participation rates over the past 40 years.

The significance of this structural change shows up in recent comparisons of male and female unemployment rates which show female rates falling below male rates for most of the months over the 1981-82 economic downturn. Given the projections of industry employment to 1990 by the Bureau of Labor Statistics, it appears that female employment is destined to grow faster than male employment and that female unemployment rates are likely to fall below male rates over much of the period. The only conditions reversing this trend would be a substantial decline in male labor force participation rates or a disproportionate increase in female participation rates, neither of which seems likely to occur over the next six years.

Perhaps a more significant prospect is that with female employment becoming an increasing proportion of total employment, personal income will grow more slowly unless total employment grows faster than in the past or wage increases outpace those of earlier years. Again, it appears that neither of these two conditions will obtain and that the Nation is destined for slower growth in personal income even if employment and wage rates grow at the same pace as in the past. One factor that we have not included in our calculations is the possible increase in part-time employment as more women become employed. The effect of this would be to further reduce personal income growth, but causing comparative male-female unemployment rates to swing either way, depending on the cyclical sensitivity of future part-time jobs.

Finally, the effect of slower growth in wage and salary disbursements on Social Security contributions may necessitate a re-examination of tax rates in order to meet cash outflows. Whether this eventuality was considered by the recent study commission is unknown, but it may require careful examination before too long.

2/ By 1980, the womens' share of industry employment exceeded 50 percent in the Retail Trade, Services, Government, and Finance, Insurance, and Real Estate sectors.

Research Summaries

COMPARING WAGE LEVELS BETWEEN METROPOLITAN AREAS

By B. Steuernagel

Is the Minneapolis-St. Paul metropolitan area a high wage area? The answer to this question is not clear cut. This research summary reports on two data series collected by the Bureau of Labor Statistics which allow some comparison of wage levels in metropolitan areas of the United States. The data for overall wage levels show that the Twin Cities area tend to be in the middle when compared to similarly sized metropolitan areas, but the rate of increase between 1981 and 1982 was faster than most metropolitan areas studied and there are distinct differences when it comes to occupational groups.

Overall wage levels for twelve large metropolitan areas from various regions of the country were compared using average annual pay in 1982 for workers covered by State and Federal Unemployment Insurance (UI). Workers covered by UI include production and sales workers, corporation officials, executives, supervisory personnel, and clerical workers. Excluded from coverage are most employees of railroads, most domestic workers, most student workers at school, elected officials, self-employed individuals and all unpaid family workers. Average annual pay was computed by dividing total annual payrolls of employers covered by UI by average monthly employment for these employers. Included in the annual payroll data are bonuses, the cash value of meals and lodging when supplied, and tips and other gratuities. Average annual pay only approximates annual earnings because an individual may not be employed by the same employer all year or may work for more than one employer. In addition, the UI data includes both full-time and part-time workers. Therefore some differences will be due to differences in the industry structure of a metropolitan area.

Average Annual Pay for 1982 for all Covered Workers
in Selected Metropolitan Areas

Area	Oct. 1983 Labor Force	Average Annual Pay 1982 Average Annual Pay	Average Annual Pay Percent Change 1981-1982	Ranking of 314 Metropolitan Areas 1982 Average Annual Pay	Ranking of 314 Metropolitan Areas Percent Change 1981-1982
1. Houston	1,794,300	$ 21,027	8.0	4	39
2. San Jose	842,800	20,536	10.1	5	2
3. San Francisco	1,790,800	20,458	9.3	6	8
4. Detroit1/	1,967,800	20,264	3.8	10	265
5. Washington, DC	1,805,900	19,562	8.8	13	16
6. Newark	986,700	19,287	9.1	18	11
7. Chicago	3,427,100	19,189	6.6	22	124
8. MPLS-ST. PAUL2/	1,209,400	17,777	8.7	53	20
9. St. Louis	1,131,000	17,742	7.3	54	85
10. Pittsburgh1/	1,026,900	17,721	4.7	56	236
11. Milwaukee	718,600	17,622	7.2	62	88
12. Atlanta	1,107,300	17,096	7.0	80	95
All 314 Metro Areas		17,327	6.8		

1/ September 1983.
2/ 1983 OMB definition includes St. Croix Co. in Wisconsin and Isanti Co. in Minnesota.

A second source of data for comparing wage levels is the Area Wage Survey, a survey of selected office, professional and technical, maintenance, materials movement, and custodial occupations conducted annually by the Bureau of Labor Statistics. The survey collects information from establishments employing 50 or more workers in all industries except mining, construction, and government. The table on the following page compares wages for the selected occupations.

The results for the Twin Cities area are sharply different than those of other metropolitan areas. Occupational wage levels in other metropolitan areas tend to be uniformly above average or below average. For example, low wage areas such as Atlanta and Pittsburgh showed below average wages in the majority of occupations. Similarly, high wage areas displayed above average wages in the majority of occupations. However, the Minneapolis-St. Paul area diverged from this pattern in that wages for maintenance and material movement occupations were above average while those for professional, technical, and office were below average. There are no clear reasons for the difference at this time. One can speculate that the above average wages in plant maintenance and material movement occupations in the Twin Cities reflects higher wages paid to union workers in manufacturing and transportation industries. However, it is not easy to explain why wages in the professional, technical and office occupations are among the lowest of these selected metropolitan areas given the high cost of living, low unemployment rates, and demand for labor from the industries which employ these occupations.

1985 AVERAGE HOURLY AND WEEKLY EARNINGS FOR SELECTED OCCUPATIONS IN 12 METROPOLITAN AREAS

Occupation	12 Area Ave.	Mpls-St. Paul MN	Atlanta GA	Chicago IL	Detroit MI	Houston TX	Milwaukee WI	Newark NJ	Pittsburgh PA	St. Louis MO	SF-Oakland CA	San Jose CA	Washington DC
Plant & Maint. -hrly													
Carpenter	$ 12.51	$ 12.64	$ 10.98	$ 12.91	$ 12.94	$ 12.54	$ 12.46	$ 11.66	$ 11.59	$ 12.13	$ 13.95	$ 12.94	$ 13.12
Electrician	13.00	13.27	11.90	12.95	13.33	13.42	13.54	11.84	12.55	12.67	13.77	13.72	-
Painter	12.03	12.75	13.38	12.51	13.05	12.49	12.64	11.35	10.10	11.50	13.80	-	8.76
Machinist	12.92	12.61	13.25	12.67	11.96	13.53	13.91	11.28	12.37	12.89	14.75	-	-
Mach. Mech.	11.84	11.25	10.36	12.49	13.20	12.48	11.56	10.59	11.68	11.05	13.28	12.27	-
Veh. Mech.	12.33	12.52	11.83	13.97	12.96	11.05	12.10	11.13	11.90	11.20	14.41	13.32	11.62
Tool & Die	13.24	12.93	11.54	13.13	13.09	13.47	13.77	11.45	11.93	13.42	15.93	14.93	-
Engineer	12.29	11.45	11.45	13.69	12.92	11.37	11.58	12.03	12.16	12.32	14.30	-	11.94
Material Movant. -hrly													
Truckdriver	11.05	12.38	9.15	12.82	11.59	8.36	10.73	11.09	11.18	11.61	12.85	12.15	8.67
Shipper/Receiv.	8.18	8.63	7.83	8.23	9.43	6.84	8.51	7.47	9.39	8.61	8.65	6.84	7.71
Warehouseman	9.13	10.81	9.38	9.87	8.70	9.29	9.02	8.33	8.80	8.87	11.26	7.99	7.26
Laborer	8.86	10.53	8.41	10.13	11.13	6.54	9.55	6.65	9.13	9.62	9.47	7.74	7.42
Forklift Op.	9.38	10.10	8.43	9.33	11.19	8.33	9.65	8.43	9.89	10.02	10.64	9.60	6.91
Guard	5.43	5.62	4.90	5.31	7.36	5.60	5.06	4.77	4.63	5.36	5.54	5.97	5.04
Janitor	5.70	5.84	4.05	6.71	7.20	3.94	5.29	5.05	5.83	5.13	8.33	6.99	4.08
Prof. & Tech. -wkly													
Comp. Analyst	575.67	544.50	598.00	566.00	603.50	626.50	553.50	586.50	531.00	576.00	589.00	611.00	522.50
Programmer	458.54	437.50	443.00	449.50	477.00	515.50	416.50	461.50	397.50	430.00	503.50	512.00	459.00
Comp. Op.	341.00	309.50	347.50	337.50	411.00	335.00	336.50	337.00	319.00	290.00	364.00	376.00	329.00
Drafter	401.13	386.00	335.50	410.50	482.00	431.00	394.00	381.00	414.00	367.50	457.00	406.00	349.00
Elect. Tech.	456.13	429.50	450.00	486.50	518.50	408.00	491.00	430.00	451.50	445.00	507.00	411.00	445.50
Reg. Nurse	444.10	424.50	447.50	424.50	508.50	460.00	444.50	412.00	429.50	429.50	460.50	-	-
Office -wkly													
Secretary	345.33	303.00	344.00	337.00	417.00	371.00	330.50	349.50	327.00	311.00	352.00	371.00	331.00
Stenographer	341.55	308.50	386.50	347.50	373.50	328.50	294.50	327.50	310.50	307.00	-	368.00	405.00
Typist	251.67	237.00	223.50	241.50	242.50	256.00	251.50	244.00	226.00	230.00	271.00	349.00	248.00
File Clerk	212.83	200.50	197.00	200.50	203.00	220.50	231.00	198.00	198.50	188.00	250.50	266.00	201.00
Messenger	226.38	186.50	209.50	225.50	260.50	215.50	216.00	240.00	224.50	214.50	257.50	236.50	230.00
Receptionist	238.67	229.50	223.00	246.00	245.00	250.50	237.50	238.00	237.00	222.50	256.50	244.50	234.00
Order Clerk	281.71	272.50	266.50	281.00	311.50	279.50	262.50	274.00	302.00	273.50	310.50	295.50	251.50
Acct. Clerk	281.13	267.50	276.00	282.50	286.50	293.50	269.50	283.50	265.50	267.00	316.50	296.00	269.50
Payroll Clerk	296.25	279.50	272.50	298.50	320.50	325.50	286.00	295.00	290.50	285.00	323.50	311.50	267.00
Key Entry Op.	263.46	250.00	256.00	265.00	273.50	276.00	269.00	253.50	259.00	236.50	308.00	278.00	237.00

The Job Market

THE PROFESSIONAL AND SCIENTIFIC INSTRUMENTS MANUFACTURING INDUSTRY

By B.J. Jones

The Measuring, Analyzing, and Controlling Instruments; Photographic, Medical, and Optical Goods; and Watches and Clocks industries include establishments engaged in the manufacturing of instruments (including professional and scientific) for measuring, testing, analyzing and controlling, and their associated sensors and accessories; optical instruments and lenses; surveying and drafting instruments; surgical, medical, and dental instruments; equipment and supplies; ophthalmic goods; photographic equipment and supplies; and watches and clocks. 1/ It is divided into seven sections: Engineering, Laboratory, Scientific, and Research Instruments; Measuring and Controlling Instruments; Optical Instruments and Lenses; Surgical, Medical, and Dental Instruments; Ophthalmic Goods; Photographic Equipment and Supplies; and Watches and Clocks. Approximately 34 percent of the Industry employment is classified as Measuring and Controlling Instruments; 25 percent Surgical, Medical, and Dental Instruments; 22 percent Engineering, Laboratory, Scientific, and Research Instruments; and 11 percent Photographic Equipment and Supplies. The remaining 8 percent is spread among the Ophthalmic Goods, Optical Instruments and Lenses, and Watches and Clocks.

Employment in the Professional and Scientific Instruments Industry in Minnesota inched upward between 1960 and 1970, increasing slightly more than 17 percent. Then from 1970 to 1980, employment growth rate soared by 71 percent. However, the unfavorable business climate of the early 1980's has resulted in a reduction of employment in this industry of 5.7 percent. In 1982, there were approximately 210 Professional and Scientific Instruments manufacturing establishments in Minnesota employing 26,100 workers. Approximately 88 percent of these workers were employed in the Minneapolis-St. Paul Metropolitan area.

Occupational staffing patterns for the Professional and Scientific Instruments Industry, as shown on Table I, point out that nearly 90 percent of the workers fall into four broad occupational categories; namely, Operatives, Professional and Technical, Craft Workers, and Clerical Workers. Operatives comprise the largest proportion (34.8 percent) of the workers in this industry. This ratio has held steady from 1970 to 1978, but is expected to increase its share of the total by 1985 to 36.5 percent. The number of Operatives increased by 44.1 percent from 1970 to 1978, and employment of Operatives is expected to rise another 35.6 percent by 1985. Comparatively, total employment in this industry rose 44.7 percent from 1970 to 1978 and is projected to climb another 29.2 percent by 1985. The largest single occupation in this category is Assemblers with nearly 3900 workers or 47.5 percent of the Operatives. Other major Operative occupations are Checkers and Examiners (10.0 percent), Packers and Wrappers (4.1 percent), and Soderers (3.4 percent).

Although the number of Professional and Technical Workers is increasing, there appears to be a downward trend in their composition of the industry employment. Between 1970 and 1978 the number of Professional and Technical Workers rose by 40.3 percent compared with 44.7 percent for the industry, and is expected to rise another 18.2 percent by 1985 compared with a projected 29.2 percent for the industry.

1/ For convenience, this industry will be referred to as the Professional and Scientific Instruments Industry in this article.

Engineers comprise 30.2 percent of the Professional and Technical employees in this industry, with 12.8 percent employed as Electrical Engineers and 9.8 percent as Industrial Engineers. Some of the other significant professional and technical occupations are Electrical and Electronic Technicians (8.2 percent), Accountants (7.2 percent) and Drafters (7.0 percent). All of these occupations are expected to increase in absolute number by 1985, despite the downward trend in the proportion of Professional and Technical Workers in this industry.

The third largest group of workers in the Professional and Scientific Instrument Industry is Craft Workers. Comprising 17.7 percent of the Workers, the major occupations are Opticians, Lense Grinders and Polishers (30.4 percent), Blue Collar Worker Supervisors (18.3 percent), Heavy Equipment Mechanics (8.5 percent), Tool and Diemakers (7.4 percent), and Dental Laboratory Technicians (6.1 percent).

Within the Clerical sector, the major occupations are General Secretaries (30.8 percent), Bookkeepers (7.6 percent), and Stock Clerks (7.5 percent). The number of Clerical Workers in the Professional and Scientific Instrument Industry is expected to increase at a faster pace (38.1 percent) than the Industry as a whole from 1978 to 1985.

Workers in the remaining five broad categories constitute 12 percent of the industry's total employment. Among the Managerial Workers, Miscellaneous Managers (79.6 percent) and Buyers (17.9 percent) dominate. Virtually, all of the workers in the Sales Occupations are classified as Miscellaneous Sales Workers.

Laborers, who represent less than two percent of the total industry employment, fall basically into two groups; Stock Handlers (36.0 percent) and Freight and Material Handlers (28.8 percent). And finally, Janitors (73.6 percent) are the only significant occupation within the Service Worker category.

Overall, the employment outlook for this industrial sector should continue to be good through the 1980's. The greatest number of job opportunities are expected to be for Operatives, Professional, and Craft Workers.

Table 1

Occupational Staffing Patterns For the Professional and Scientific Instruments Industry

	Percent of Industry		
Occupational Groups	1970	1978	1985
Professional, Technical, & Kindred	21.4	20.8	19.0
Managers, Officials, & Proprietors	7.2	7.6	7.0
Sales	1.5	1.7	1.6
Clerical	14.9	14.0	15.0
Craft & Kindred	16.0	17.7	17.7
Operatives	34.9	34.8	36.5
Service	2.0	1.6	1.4
Laborers except Farm	2.0	1.7	1.8
Farm Laborers	0.0	0.0	0.0

SUPPLY/DEMAND FOR SPECIFIC OCCUPATIONS, JANUARY, 1984[1/]

By S. Hamper

MINNESOTA

Shortage Occupations: electrical engineers, commissioned sales persons#, electronic technicians, highly skilled clerical workers#, maintenance mechanics

Surplus Occupations: teachers, retail sales clerks#, general clerical workers, waiters/waitresses, machinists#, construction workers, truck drivers#, factory workers#, laborers#

CENTRAL MINNESOTA

Shortage Occupations: commissioned sales persons#, skilled diesel and heavy equipment mechanics, experienced welders (especially aluminum welding)

Surplus Occupations: computer operators, registered nurses, retail sales clerks#, office clerical workers, assembly workers, laborers#

MINNEAPOLIS-ST. PAUL

Shortage Occupations: electrical engineers, electronic technicians, highly skilled clerical workers#, maintenance mechanics

Surplus Occupations: teachers, full-time food service workers, machinists#, factory assemblers#, packaging and material movement handlers, laborers#

NORTHEASTERN MINNESOTA

Shortage Occupations: none

Surplus Occupations: entry-level managers#, teachers#, social workers#, office clerks#, typists, bookkeepers#, sales clerks#, waiters/waitresses#, cooks#, maids#, food production workers#, machinists#, welders#, heavy equipment operators#, maintenance mechanics#, auto-diesel mechanics#, truck drivers#, carpenters#, painters#, bricklayers#, millwrights#, pipefitters#, electricians#, mining crafts#, laborers: construction, mining, and general#

NORTHWESTERN MINNESOTA

Shortage Occupations: commissioned sales persons#, computer programmers, live-in companions#, diesel and heavy equipment mechanics

Surplus Occupations: clerical workers, waiters/waitresses, construction workers, welders#, truck drivers, laborers#

SOUTHERN MINNESOTA

Shortage Occupations: electrical engineers#, mechanical and electrical drafters, secretaries with shorthand, over-the-road truck drivers

Surplus Occupations: management trainees, elementary teachers, clerical workers#, construction workers, factory workers, general laborers#

1/ Shortage occupations are those that are difficult to fill or go unfilled due to the lack of qualified applicants. Surplus occupations are those in which the number of qualified applicants greatly exceeds the number of openings.

This occupation has been listed as a shortage or surplus occupation in at least two out of the last three quarters of the Review.

Feature Article

1984 ECONOMIC OUTLOOK

By R. Pinola*

I. 1983 in Retrospect

Contrary to dire predictions by many analysts, the national economy exhibited substantial improvement in 1983. Despite a stagnant first quarter, real Gross National Product (RGNP) for the year grew by roughly 3.4 percent, close to our year-ago forecast of 3.5 percent. The moderation in producer and consumer price increases was also more than most forecasters had predicted. Although employment for the year grew more slowly than we had expected, this was largely due to sluggish conditions in the first quarter and better than average increases in productivity. 1/

On the expenditure side, all major components except residential fixed investment behaved pretty much as we expected. Preliminary estimates by the U.S. Department of Commerce showed personal consumption expenditures growing by 4.2 percent, nonresidential fixed investment rising by 1.1 percent, and government purchases of goods and services increasing by a scant 0.5 percent. Meanwhile, the growth in residential fixed investment was a hefty 39.6 percent, considerably higher than predicted by most forecasters, including ourselves.

At the State level, Minnesota employment growth was sluggish until well into the third quarter. Both total and non-farm payroll employment in the State did not rise above the comparable month of a year earlier until August and, as a result, average annual employment for the entire year was basically unchanged from 1982, falling substantially below our forecast. However, by year end, total and non-farm payroll employment in Minnesota was up 5.3 percent and 3.0 percent, respectively, over December 1982 levels.

In tandem with the resurgence in employment after mid-year, both total and non-farm personal income in Minnesota showed healthy growth, outpacing that of the Nation in the third quarter. Also on the plus side, the Consumer Price Index for the Minneapolis-St. Paul SMSA rose by only 2.1 percent compared to a 3.2 percent increase nationally. 2/

Perhaps the most welcome news for State policymakers was the significant decline in the unemployment insurance claim load. Weeks claimed in the regular program began a substantial decline in mid-March, fell below both the 1980 and 1982 level in mid-April, and the 1981 level by mid-June. By mid-October, weeks claimed in the regular program were less than half of the comparable 1982 period. Even more noteworthy was the decline in weeks claimed in the Manufacturing sector, with the October count less than 25 percent of the January level.

1/ Employers were also more inclined to increase hours worked per week rather than hire new workers.

2/ Our calculations are based on annuage averge changes in the CPI in contrast to those based on an over-the-year change for a particular month. Our method is more reflective of overall trend.

*This article was prepared by R. Pinola, Director Research and Statistical Services Office of the Minnesota Department of Economic Security.

As the year drew to a close, the potential for continued growth at the national level was reflected in reported consumer and producer spending plans. Inasmuch as the fortunes of the State are largely dictated by national economic conditions, Minnesotans can expect to share in this growth.

II. Issues and Problems

The Federal Deficit

Over the years we have observed that the use of various elixirs to provide remedies for every form of economic dislocation has obscured our view of basic economic problems. Last year, we argued that while the long overdue focus on the Federal deficit and monetary ease was welcome, it was inclined to be misdirected and ill-timed. Instead of joining the chorus of dire predictions of credit crunches and the crowding of investment capital, we argued that a more realistic view in 1983 should focus on the huge gap between potential and actual GNP and widespread excess capacity in the system. With most manufacturers operating below 70 percent of capacity and over $250 billion being massaged in the money market instead of new plant and equipment, we suggested that much of the rhetoric on the Federal deficit was misplaced. 3/ As it turned out, interest rates actually fell, private investment was not crowded out, and price inflation was at a ten-year low.

The notion that the Federal deficit poses a threat to economic recovery has received widespread attention. Most of the discussion has centered on two arguments; namely, that the deficit has led to an over-valued dollar and that it generates a shortage of capital and high interest rates. With respect to the first argument it is further posited that our merchandise trade deficit and poor export performance is directly attributable to the budget deficit and reduces the amount of available capital for private investment, thereby deterring recovery.

Considering the argument of the over-valued dollar, it is debatable whether it is as much the result of the deficit as a reflection of weak currencies of over-inflated economies searching for a safe harbor. There is also the question of how much our sluggish export sales are due to an over-valued dollar as opposed to the world-wide recession, combined with sticky production costs at home and the widespread diffusion of advanced technology abroad. As for production costs, it should be noted that from 1972 through 1982, output-per-manhour in the United States remained relatively flat (even declined in some years) in many key industries while wage rates and other costs continued to rise. Hence, rising production costs, together

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3/ We feel it is misplaced because in the fourth quarter of 1982 manufacturers' plant utilization rates averaged only 64 percent of preferred utilization and actual GNP was 10.7 percent or $178.1 billions of 1972 dollars short of potential GNP.